



# SMEs and the built environment

How to incentivise investment in the energy efficiency of SME business premises

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# Contents

Executive summary	5
Gap analysis and research question	7
Methodology	11
Results	12
Policy recommendations and conclusion	22
Appendix	30

## Executive summary

Small and medium-sized enterprises (SMEs) are collectively estimated to be responsible for between 43 and 53% of total UK business greenhouse gas emissions.<sup>1</sup> Furthermore, the built environment – including the premises SMEs operate from – is a key contributor to these emissions.

However, as of July 2024, 1 in 3 (29%) UK businesses with 10-49 employees say that net zero carbon emissions is a low priority or not a priority for them, as do 14% of businesses with 50-249 employees. Given that 56% of UK commercial property is estimated to be tenanted,<sup>2</sup> this challenge is made more acute by the fact that SMEs are highly likely to be tenants in their buildings, rather than the owners. This can impact their ability to make material changes to the premises under their lease agreement, representing an obstacle to the UK achieving its 2030 and 2050 net zero targets.

As a financial services provider to both SMEs and commercial landlords, Barclays sees first-hand where some of the major barriers and enablers lie regarding investment in the energy efficiency of business premises. Using these insights, we therefore undertook a deep dive to consider:

*How public policy can be used to encourage more small and medium-sized businesses, and commercial property owners, to make bigger investments in physical actions to improve the energy efficiency of their business premises?*

Our research included a review of relevant customer and client market research we have conducted over the past two years, supplemented with new quantitative research into business attitudes and enablers to invest in the energy efficiency of their commercial premises, delivered using the quarterly Barclays Business Prosperity Index survey (Q3 2024 data).

The review of our own market research found that SMEs are **incentivised to invest** in 'green' or sustainable solutions by desires to 'comply' (meet external stakeholder expectations or requirements); 'protect' (future-proof their business); and 'impress' (capture new markets/opportunities or drive loyalty). SMEs feel they are **prevented from this type of investment** by cost (upfront cost or ongoing maintenance, plus uncertain return on investment); capacity (the time, resource and knowledge needed to invest well); and concern about impact (business disruption or how to measure the benefit).

When it comes to investing in the energy efficiency of their commercial premises in particular, SMEs and their commercial premises landlords demonstrated the following patterns in outlook and motivations:

- **SME commercial premises tenants:** Least likely to have taken action to improve the energy efficiency of their building – or if they have, then actions are likely to have been 'simple'. Most likely to say they have 'no plans' to undertake each action. Typically, 'none of the above' (i.e. none of the options offered in the survey<sup>3</sup>) would enable more extensive actions, followed by 'tax incentives'.
- **SME commercial premises owner-occupiers:** More likely than tenants to have taken action to improve energy efficiency (c. 50%) – again, with 'simple' actions the most popular. Less likely to have 'no plans'

<sup>1</sup> British Business Bank, [Smaller businesses and the transition to Net Zero](#), October 2021.

<sup>2</sup> British Property Federation, [Energy Data, Buildings and Net Zero. Closing the Data Deficit](#), June 2024.

<sup>3</sup> This included a range of 15 options, including 'Greater confidence that the technology you would be investing in has longevity'; 'More readily available data on building energy use and efficiency'; and 'Greater confidence about my future business performance and income'.

to do so. 'Greater confidence that the technology you would be investing in has longevity' and 'more readily available data on building energy use and efficiency' are enablers of more extensive actions.

- **Commercial premises landlords** (note – captures businesses of all sizes, not just SMEs): As likely as commercial owner-occupiers to have taken action (c. 50%) – but their most popular individual actions are 'extensive'. Just 15% or less have no plans to undertake each action. Tech longevity and building data are also key enablers, but so is 'greater clarity about the balance of responsibility and benefits between landlords and tenants'.

These results led us to draw four key findings, and six policy recommendations for policymakers looking to drive a step change in the energy efficiency of SME commercial premises:

**First key finding: This landscape is complex, and incentives for different actors within the ecosystem are not aligned.**

- This is the lens through which all our subsequent recommendations have been considered.

**Second key finding: Cost and capability are already critical barriers to SMEs investing in green assets and sustainable improvements more broadly, but the challenge is exacerbated in the commercial premises space where a misalignment of incentives exists between cost-bearer, versus benefit-receiver.**

- **Recommendation #1:** *The government should conduct a full review of the SME environmental grants landscape to:*
  - *Consolidate existing schemes into a streamlined offering.*
  - *Consider options for creating a single point of entry that integrates both educational materials and a clear pathway to funding. This should explore the potential value and feasibility of incorporating some form of up-front needs assessment.*
  - *Actively market the offering to drive awareness and take up.*
- **Recommendation #2:** *The government should reconsider its decision to remove targeted capital allowance incentives for investment in energy efficient solutions for buildings and business operations. In particular, we would strongly support the re-introduction of a super-deduction applied to technologies and equipment on the Energy Technology List (ETL) and Water Technology List (WTL) to encourage businesses and landlords to make more sustainable choices when investing in the energy efficiency of their operations and premises.*

**Third key finding: Improved data availability on the energy efficiency of commercial premises could be a key enabler of action and engagement within the ecosystem.**

- **Recommendation #3:** *The government should seek to conclude its consultation on the Energy Performance of Buildings regime at pace to identify improvements to energy performance measurement and reporting. Critically, this should review the metrics for commercial buildings in tandem with those for residential buildings, to ensure that the energy performance of all buildings – regardless of purpose – can be assessed using high quality, understandable and comparable data.*

- **Recommendation #4:** *The government should mandate the sharing of energy consumption data between commercial real estate tenants and building owners to improve understanding of building performance and appetite for energy efficiency improvements.*

**Fourth key finding: External pressures can be a powerful driver of SME behaviour and could be used to overcome this challenge.**

- **Recommendation #5:** *The government should confirm the raising of the minimum standard under MEES for privately rented non-domestic properties to EPC B by an agreed and appropriate deadline (including any necessary interim steps).*
- **Recommendation #6:** *The government should consider putting more regulatory weight behind the use of green leases – potentially mandating that all commercial premises leases include some basic clauses in this respect (such as data sharing permissions, or landlord rights of access for energy efficiency improvements) by an agreed deadline.*

## Gap analysis and research question

The global shift toward achieving net zero emissions by 2050 has become a critical priority for government, businesses and financial institutions, driven by the need to meet the targets set by the Paris Agreement (COP 21, 2015). Signed by nearly 200 countries, the agreement aims to limit any increase in global surface temperature to 1.5 degrees Celsius.<sup>4</sup>

Small and medium-sized enterprises (SMEs)<sup>5</sup> make up the bulk of the UK economy, and while each individually may be small in size, they are collectively estimated to be responsible for between 43-53% of total UK business greenhouse gas emissions – or 29-36% of total UK emissions.<sup>6</sup> However, there are many identifiable barriers to SMEs acting on net zero, such as the cost involved, resource constraints (including time, information and capacity), and policy and regulatory complexity and uncertainty. These barriers to action are complicated by mixed levels of engagement across different sectors and business sizes. This means that despite increasing awareness – nearly 60% of businesses report awareness of net zero concepts<sup>7</sup> – there remains a gap in action.

The challenge seems to be more acute among smaller businesses, with a sense that appetite among UK businesses to demonstrate that they are taking energy efficiency and sustainability action has slowed in recent years. Notably, as of July 2024, 1 in 3 (29%) UK businesses with 10-49 employees say that net zero carbon emissions is a low priority or not a priority for them, compared to 14% of businesses with 50-249 employees.<sup>8</sup> Similarly, only 53% of businesses with 10-49 employees have invested in initiatives to reduce their carbon footprint, compared to 74% of medium-sized businesses (50-249 employees) and 74% of

<sup>4</sup> Nuala Burnett, Suzanna Hinson and Iona Stewart, [Research Briefing. The UK's plans and progress to reach net zero by 2050](#), September 2024. Contains Parliamentary information licensed under the Open Parliament Licence v3.0.

<sup>5</sup> "An SME is any organisation that has fewer than 250 employees and a turnover of less than €50 million or a balance sheet total less than €43 million." See Foreign, Commonwealth & Development Office, [Small to medium sized enterprise \(SME\) action plan](#), May 2023. Contains public sector information licensed under the Open Government Licence v3.0.

<sup>6</sup> British Business Bank, [Smaller businesses and the transition to Net Zero](#), October 2021.

<sup>7</sup> British Business Bank, [Smaller businesses and the transition to Net Zero](#), October 2021.

<sup>8</sup> Barclays/Opinium survey of 1,000 business decision-makers in Q2 2024 (including 250 small businesses of 10-49 employees, and 250 medium businesses of 50-249 employees). Results are unweighted.

large businesses (250+ employees).<sup>9</sup> This shortfall in investment appetite indicates the need for a more concerted effort, including through public policy, to drive the transition forward.

The built environment plays a significant role in overall UK progress towards net zero, accounting for 25% of emissions.<sup>10</sup> Within this, commercial premises are a key contributor, estimated to represent 23% of built environment carbon emissions.<sup>11</sup> While business size data is missing for most non-domestic premises reporting in England and Wales, where it does exist it is clear that the majority of non-domestic building occupants are SMEs with <250 employees.<sup>12</sup> Therefore, it is essential that these businesses play their part in retrofitting buildings and upgrading equipment, to support climate goals.

A 2021 study by the British Business Bank looked at small business actions to transition to net zero, including actions taken to improve the energy efficiency of their business premises and equipment specifically.<sup>13</sup> The study created its own novel classification system for net zero actions, labelling certain types of activity as either 'simple' or 'extensive' based on their complexity, investment requirements and the impact on emissions (note that alternative categorisations of actions also exist<sup>14</sup>). It found that while 78% of SMEs reported taking at least one action to improve the energy efficiency of their premises and equipment, only 50% had taken actions considered 'extensive' – i.e. actions that are more complex to implement but have a higher impact on carbon emissions.

Incentivising more businesses to move beyond simple, low-cost measures toward more impactful, complex actions on the energy efficiency of their premises will be key to meeting the UK's net zero targets. But there are complicating factors that prevent, or make it harder, to drive change in the SME space. For example:

- A significant proportion of SMEs lease, rather than own, their commercial premises: 56% of UK commercial property is estimated to be tenanted.<sup>15</sup> Tenants' ability to make changes or upgrades to their building will be governed or influenced by their lease, including its length and its terms.
- SMEs are also a diverse group with nuances that impact both their relationship to their premises and its energy efficiency, and their ability to act to improve it – e.g. sector, premises needs, and specific lease arrangements. For example, those on a 'full repairing and insuring' lease are typically fully responsible for repairs and maintenance, whereas other leases may include restrictions on changes or upgrades that tenants are able to make to the premises, particularly if the lease is shorter term.
- SMEs' commercial landlords are similarly diverse, comprising – among others – private property companies, pension funds, real estate investment trusts and pooled investment vehicles, as well as overseas organisations and individuals. As a result, their level of engagement with their properties and with net zero considerations can vary substantially, and some outsource the day-to-day running of their properties to specialist property management companies.

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<sup>9</sup> Barclays/Opinium survey of 1,000 business decision-makers in Q2 2024 (including 250 small businesses of 10-49 employees, 250 medium businesses of 50-249 employees and 500 large businesses of 250+ employees). Results are unweighted.

<sup>10</sup> UK Green Building Council, [Climate Change Mitigation](#), accessed October 2024.

<sup>11</sup> UK Green Building Council, [Commercial Retrofit](#), accessed October 2024.

<sup>12</sup> HM Government, [The Non-Domestic National Energy Efficiency Data-Framework 2024 \(England and Wales\)](#), August 2024. Contains public sector information licensed under the Open Government Licence v3.0.

<sup>13</sup> British Business Bank, [Smaller businesses and the transition to Net Zero](#), October 2021.

<sup>14</sup> Note that the Green Building Council offers a different definitional distinction between 'light' and 'deep' retrofit. We acknowledge this as an alternative way of categorising actions, but for the purposes of this report we will be using the British Business Bank's distinction of 'simple' versus 'extensive.' UK Green Building Council, [Delivering Net Zero: Key Considerations for Commercial Retrofit](#), May 2022.

<sup>15</sup> British Property Federation, [Energy Data, Buildings and Net Zero. Closing the Data Deficit](#), June 2024.

However, despite the heterogeneity of the key actors (both SMEs and landlords), there is still value in looking at the landscape in the round to understand the key thematic barriers and policy enablers to unlocking greater investment in energy efficiency to help drive change.

Many of the challenges are already recognised among industry players and policymakers alike. A recent report by Baringa, in collaboration with Barclays, looked at the sustainable retrofitting landscape in the real estate sector.<sup>16</sup> As well as financial barriers, it highlighted that commercial landlords and building owners face a complicated landscape when trying to engage with sustainable retrofitting, including significant challenges such as:

- **Regulatory and policy barriers** – including inadequate financial incentives; complex and inconsistent regulation; conflicting policy objectives; and bureaucratic hurdles and delays.
- **Supply chain issues** – including a shortage of skilled workers; potentially higher costs for, and inconsistent availability of, sustainable materials; and complex and fragmented supply chains.
- **Knowledge and data** – including accessing and maintaining accurate building data (if it exists); and poor understanding of energy performance.
- **Operational challenges** – including complex building structures, lease types and durations; disruption to occupiers; and complicated stakeholder networks (including tenants).

The report noted that landlords in particular face an intricate stakeholder ecosystem when it comes to sustainable retrofitting – “needing to navigate and align across seven distinct stakeholder groups, including financial institutions, design consultants, contractors, and client tenants.”<sup>17</sup> Not only does this increase complexity, but it can also risk or slow progress due to the number of stakeholders that need to be engaged simultaneously.<sup>18</sup>

The challenges in this space are recognised by government, with various attempts made to use public policy to drive a step change in behaviour. For example:

- **The Minimum Energy Efficiency Standard (MEES):** These were introduced in 2018 to address energy inefficiency within privately-rented commercial premises.<sup>19</sup> The Standards require landlords of non-domestic privately rented properties to ensure their buildings meet a minimum energy performance certificate (EPC) rating of at least E before they can be leased, and as of April 2023, apply to existing tenancies as well as new and extended tenancies.<sup>20</sup> The current Labour government has committed to reforming MEES as part of the Warm Homes Plan, but no policies have yet been announced related to non-domestic regulation.
- **The 2021 Independent Skidmore Review ('Powering Up Britain'):** This explored how the government could “enhance [UK] energy security, seize the economic opportunities of the transition, and deliver on our net zero commitments”.<sup>21</sup> It called for government to establish “a taskforce of suppliers, small business landlords and business groups to agree how to cut energy use in rented premises by 2023”,<sup>22</sup> however the subsequent Energy Efficiency Taskforce was disbanded.<sup>23</sup>

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<sup>16</sup> Baringa and Barclays, [Navigating sustainable retrofit in real estate](#), October 2024.

<sup>17</sup> Baringa and Barclays, [Navigating sustainable retrofit in real estate](#), October 2024.

<sup>18</sup> Baringa and Barclays, [Navigating sustainable retrofit in real estate](#), October 2024.

<sup>19</sup> Note that MEES does not apply in Scotland.

<sup>20</sup> HM Government, [Non-domestic private rented property: minimum energy efficiency standard – landlord guidance](#), accessed October 2024.

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<sup>21</sup> HM Government, [Powering up Britain](#), accessed January 2025. Contains public sector information licensed under the Open Government Licence v3.0.

<sup>22</sup> Rt Hon Chris Skidmore MP, [Mission Zero. Independent Review of Net Zero](#), January 2023. Contains public sector information licensed under the Open Government Licence v3.0.

<sup>23</sup> HM Government, [Energy Efficiency Taskforce](#), accessed October 2024. Contains public sector information licensed under the Open Government Licence v3.0.



- **Smart meter roll out and data access:** Smart meters represent a fundamental enabler for building users to access innovative new products and services (e.g. novel energy tariffs, or potentially green lending) that can support their transition. Smaller non-domestic sites are covered by the smart meter mandate, with 3 million meters (across almost 2 million non-domestic sites in Britain) in scope – which is estimated to lead to £1.5bn of energy consumption reductions.<sup>24</sup> However, the ability to share and use the data is critical to realising the benefits. To help address this, non-domestic consumers now have the option to take up a default data offer, whereby “energy suppliers must provide or make available free, user-accessible energy use information to smaller non-domestic customers with smart meters, for example, via an app, data tool or online platform”.<sup>25</sup> However, there remain challenges with accessing and sharing data for rented premises. For example, if tenants manage their own energy contracts, then commercial landlords can lack both direct access to data, and permission to obtain and consolidate it for their premises. This lack of data sharing makes it harder for landlords to assess their whole premises when making retrofitting plans; exacerbated in multi-tenant buildings (where gas and electricity are often treated differently<sup>26</sup>) where tenants may use different suppliers.
- **Various loans and grants for commercial energy efficiency upgrades:** For example, the Boiler Upgrade Scheme; the Industrial Energy Transformation Fund (IETF); VAT savings on energy saving measures for home businesses; and business rate exemptions on energy generation and storage.

However, it is clear that there remains a policy gap in terms of helping to overcome some of these challenges, and align SME and commercial landlord incentives to invest to improve their premises’ energy efficiency. The Climate Change Committee’s 2023 Report to Parliament noted that “there is a large and increasingly concerning policy gap relating to non-residential buildings” and that “there are no convincing plans to decarbonise commercial buildings.”<sup>27</sup>

Barclays is uniquely positioned to offer a holistic perspective to this particular challenge. As a financial services provider to both SMEs and commercial landlords, we can see first-hand where some of the major barriers and enablers lie regarding investment in business premises. We are already contributing to efforts to improve building energy efficiency by offering a number of products that aim to encourage and facilitate such investment. However, availability of private financing alone is not the only constraining factor to more extensive action. Many SMEs and commercial landlords are still reluctant, unable, or unwilling to act on the energy efficiency of their business premises.

Given the urgency of the challenge, and the breadth of insight we hold on this question – including Barclays’ recent report on improving the energy efficiency of the UK’s residential premises<sup>28</sup> – we therefore set out to examine in detail what the major barriers and enablers might be to further action by businesses and landlords to materially improve the energy efficiency of their premises. Specifically, we wanted to understand:

<sup>24</sup> HM Government, [Non-domestic smart meter consumer segmentation](#), accessed November 2024, and Department for Business, Energy & Industrial Strategy, [Non-Domestic Smart Meter Consumer Segmentation](#), BEIS Research Paper Number 2023/001, February 2023. Both contain public sector information licensed under the Open Government Licence v3.0.

<sup>25</sup> HM Government, [Non-domestic smart metering](#), accessed November 2024. Contains public sector information licensed under the Open Government Licence v3.0.

<sup>26</sup> In these cases, electricity relies on either sub-metering being in place so that the landlord can bill tenants accurately, or a unique meter that provides access to the electricity market. For heating, typically there will be one source of heat generation, and the landlord will often divide the bill by floor space to determine each tenant’s contribution. Tenants typically have very little agency to make changes to heating systems in such buildings.

<sup>27</sup> Climate Change Committee, [Progress in reducing emissions. 2023 Report to Parliament](#), June 2023.

<sup>28</sup> Barclays, [Electrifying the future: boosting the energy efficiency of UK homes](#), November 2024.

*How public policy can be used to encourage more small and medium-sized businesses, and commercial property owners, to make bigger investments in physical actions to improve the energy efficiency of their business premises?*

## Methodology

To consider this question, we conducted a review of insights that Barclays holds on the topic, gained through several years of client and open market business research that was originally conducted to inform our product and service offering in this space. By re-visiting this content with a public policy lens, we believe we can identify challenges that the private sector alone may struggle to wholly address, and where public policy intervention may be needed in order to unlock more material behaviour change among businesses and landlords.

Note that owing to differences in the definition of SME across these various insight sources, for the purposes of this report we take an inclusive approach, defining an SME as a business either with <£6.5m annual turnover (Barclays' internal definition) or with <250 employees (aligned with the UK government's definition).

Key quantitative inputs into the findings are from the **Barclays/Opinium Business Prosperity Index (BPI) survey**. This uses a sample of 1,000 UK business decision-makers responsible for growth targets or company performance, across a mix of industries.<sup>29</sup> We used data from two waves of the survey, as follows:

- **Q2 2024:** This wave<sup>30</sup> included a set of 11 questions probing business attitudes to net zero in general, including the extent to which they are prioritising this as a business issue; measuring their carbon footprint; and seeking finance to reduce emissions. Note that for this wave, micro-businesses with 0-9 employees were excluded from the sample.
- **Q3 2024:** We used this wave<sup>31</sup> specifically to strengthen our data within specific audiences (SME tenants, SME owner-occupiers, and commercial landlords). We included three bespoke questions that directly explored actions and attitudes towards investing in the energy efficiency of their commercial premises. Note that the audience for this wave of the BPI survey differed to that in Q2, in that the Q3 wave also included micro-businesses with 0-9 employees in the sample.<sup>32</sup>

Key qualitative inputs into the findings, all of which are studies conducted by qualitative researchers at Barclays, are as follows (in each case, participants had annual turnover of up to £6.5m):

- **'Unlocking the future of SME green lending', June 2024:** Qualitative depth interviews with ten SMEs, across a mix of industries, open to investing in green activity.<sup>33</sup> Most of the sample were non-Barclays

<sup>29</sup> 25% of the sample had 10-49 employees ('small businesses'), and a further 25% had 50-249 employees ('medium-sized businesses'). The remaining 50% had 250+ employees, and so have not been considered in this report since they sit outside our SME definition. Results in report are unweighted.

<sup>30</sup> Fieldwork dates: 28<sup>th</sup> June – 15<sup>th</sup> July 2024.

<sup>31</sup> Fieldwork dates: 11<sup>th</sup> – 28<sup>th</sup> October 2024.

<sup>32</sup> 20% of the sample had 0-9 employees (a new addition for the Q3 wave); 20% had 10-49 employees; and 20% had 50-249 employees. The remaining 40% had 250+ employees, and are largely out of scope in this report except as part of the 'Commercial landlord' audience discussed in the Results section. Results in the report are unweighted.

<sup>33</sup> 3 were considering solar panels, 5 were considering electric vehicles, and 2 were considering energy efficient buildings.

customers, and the objective was to explore businesses' motivations and barriers to investing in green assets – as well as understand how green finance can help overcome the barriers.

- **'SME Road to Net Zero,' October 2023:** Qualitative depth interviews with ten Barclays Business Banking clients across a mix of industries. Participants were recruited via their Relationship Managers, based on having responded positively to conversations about net zero and the support available to them. The objective was to explore customer needs in relation to sustainability.
- **'Net Zero: Real Estate sentiment,' July 2023:** Qualitative depth interviews with ten real estate owners, including around half who own commercial property. The objective was to understand how real estate owners assess challenges arising from the journey to net zero.

## Results

### What are the thematic drivers and barriers to SMEs investing in making their business net zero?

Broadly speaking, SMEs are aware of the growing discourse around climate change and net zero,<sup>34</sup> and a significant proportion recognise its importance: just under half (48%) of businesses with 10-249 employees consider net zero carbon emissions a high or very high priority.<sup>35</sup>

For many SMEs, this is already translating into action on net zero. As of July 2024, 61% of SMEs with 10-249 employees say they currently measure their carbon footprint,<sup>36</sup> while 73% of those who are prioritising net zero to some degree say that they have a plan in place to reach net zero carbon emissions by a specific date.<sup>37</sup> However, that does still leave a significant proportion who are not yet prioritising net zero or the investment needed to achieve it.

SME priorities – much like other businesses – tend to revolve around the bottom line. Qualitative research conducted by Barclays with SMEs in June 2024 found that their three main priorities were reducing cost to minimise expenses; increasing profits to grow or to provide peace of mind; and the day-to-day or business-specific tasks that keep operations running.<sup>38</sup>

A review of Barclays' research over the past two years has identified the following thematic motivators and barriers to net zero action among SMEs, which are summarised in Table 1.

**Table 1: Motivating and barrier themes to green investment**

Theme	Explanation	Business voice
<b>Motivators for green investment</b>		

<sup>34</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>35</sup> Barclays/Opinium survey, Q2 2024. Unweighted results among sample of 500 SMEs, including 250 small businesses of 10-49 employees and 250 medium-sized businesses of 50-249 employees.

<sup>36</sup> Barclays/Opinium survey, Q2 2024. Unweighted results among sample of 500 SMEs, including 250 small businesses of 10-49 employees and 250 medium-sized businesses of 50-249 employees.

<sup>37</sup> Barclays/Opinium survey, Q2 2024. Unweighted results among SMEs who are prioritising net zero to some degree (moderate/high/very high priority), based on a starting sample of 500 SMEs (including 250 small businesses of 10-49 employees and 250 medium-sized businesses of 50-249 employees).

<sup>38</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<b>Protect</b>	Investment in green action can be a solution to help save money and cut costs, for example through reducing energy bills or claiming tax relief. <sup>39</sup> SMEs motivated by this theme recognise the importance of prioritising net zero carbon emissions to their growth potential and business longevity.	<i>"Ultimately it always comes down to money. If there's money to be saved, we should be doing that... It could go towards a raise or a new member of staff."</i> - Real Estate, £1m – £2m turnover, (Barclays 2024 qualitative research)
<b>Comply</b>	SMEs can feel pressured by government policy or regulatory changes (either existing or expected) to go green. <sup>40</sup> Employee demand, and procurement/tender requirements, can also drive investment in green initiatives. <sup>41</sup> 53% of SMEs with 10-249 employees say they have been asked to demonstrate their carbon emissions by a current or potential client/customer as a condition of receiving future work, and 54% have been asked by a current client because they were seeking to measure their own carbon footprint – demonstrating the role of supply chain pressure. <sup>42</sup>	<i>"With the ULEZ charge it's getting very expensive to deliver in and around London... Electric vans give us peace of mind that we're not going to be fined."</i> - Manufacturing, £4m - £6.5m turnover (Barclays 2024 qualitative research)
<b>Impress</b>	More proactively, some SMEs can be motivated to bolster their green credentials by the potential reputational benefit in the eyes of customers and clients or when applying for new business, with the opportunity to win new opportunities or drive greater customer loyalty. <sup>43</sup>	<i>"When we submit a tender it feels good that we can tick the green box because hopefully it sets us apart from other competitors."</i> - Healthcare, £4m - £6.5m turnover (Barclays 2024 qualitative research)

### Barriers to green investment

<b>Cost</b>	The upfront investment needed to fund green assets – or cost of ongoing maintenance – can deter or prevent SMEs from taking action, as can concerns about the uncertain return from such investment. <sup>44</sup> Among businesses with 10-249 employees who do not currently measure their carbon footprint, a quarter (25%) say this is because it is too costly or not in their commercial interest to do so. <sup>45</sup> Difficulty accessing finance (both public and private) for green investment can	<i>"This is a risk. It's not generating income and it's only making a saving which we haven't determined yet."</i> - Real Estate, £4m - £6.5m turnover (Barclays 2024 qualitative research)
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<sup>39</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023 and 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>40</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>41</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>42</sup> Barclays/Opinium survey, Q2 2024. Unweighted results among SMEs who do not currently measure their carbon footprint, based on a starting sample of 500 SMEs (including 250 small businesses of 10-49 employees and 250 medium-sized businesses of 50-249 employees).

<sup>43</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023 and 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>44</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023 and 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>45</sup> Barclays/Opinium survey, Q2 2024. Unweighted results based on starting sample of 500 SMEs, including 250 small businesses of 10-49 employees and 250 medium-sized businesses of 50-249 employees.

	also play a role. <sup>46</sup> 28% of SMEs with 10-249 employees say they have sought, but were unable to obtain, finance to help reduce their carbon emissions. <sup>47</sup>	
<b>Capacity</b>	With so many other competing responsibilities that require attention, time and resource, SMEs can struggle to prioritise net zero. <sup>48</sup> Among SMEs who do not currently measure their carbon emissions, the top reason cited for this was having more important priorities. <sup>49</sup> This can be exacerbated by a lack of knowledge, expertise or understanding about green assets – and where to find, or whom to trust for, reliable information on decarbonisation options and processes. <sup>50</sup>	<p><i>"It's on my radar but I don't know too much about that world... How does solar work? ...How do you maintain it? Are there specialist electricians? How is the electricity stored? How much sun light do you need?"</i></p> <p>- Real Estate, £1m – £2m turnover, (Barclays 2024 qualitative research)</p>
<b>Concern about impact</b>	SMEs worry about the potential disruption from sustainable changes on 'business as usual', and the impact this could have on earnings or customer experience. <sup>51</sup> They can also have concerns about the limitations of specific types of green technology, <sup>52</sup> or more broadly, how they would measure the impact of any such changes. <sup>53</sup>	<p><i>"I think that one of the problems with the carbon footprint thing is that it is intangible, I can't see my carbon footprint, I can't even quantify it. If you say to me, 'my carbon footprint is 300 tons of CO<sub>2</sub>' – I can't see CO<sub>2</sub> and how do I weigh a gas?"</i></p> <p>- Retail, &lt;£6.5m turnover (Barclays 2023 qualitative research)</p>

Our research indicates that **smaller businesses typically feel these barriers more acutely**, given that they are more likely than medium-sized businesses to have smaller teams and less financial stability. This means, for example, that the perceived financial risk of any green investment is greater and preparing the business case is more effortful.<sup>54</sup>

## How does owning versus leasing commercial premises impact SMEs' attitudes to investing in energy efficiency improvements?

Using our Q3 2024 BPI survey,<sup>55</sup> we sought to understand the extent to which a company's relationship to its commercial premises influences its attitudes towards energy efficiency improvements.

<sup>46</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023 and 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>47</sup> Barclays/Opinium survey, Q2 2024. Unweighted results among sample of 500 SMEs, including 250 small businesses of 10-49 employees and 250 medium-sized businesses of 50-249 employees.

<sup>48</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023.

<sup>49</sup> Barclays/Opinium survey, Q2 2024. Unweighted results among SMEs who do not currently measure their carbon footprint, based on a starting sample of 500 SMEs (including 250 small businesses of 10-49 employees and 250 medium-sized businesses of 50-249 employees).

<sup>50</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023 and 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>51</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>52</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>53</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023.

<sup>54</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>55</sup> Unless otherwise stated, all results in this section come from Barclays/Opinium survey, Q3 2024. Results among 'Tenant' and 'Owner-occupier' audiences are unweighted results based on a starting sample of 600 SMEs, including 200 micro-businesses of 0-9 employees, 200 small businesses of 10-49 employees, and 200 medium-sized businesses of 50-249 employees. Results among 'Commercial landlord' audience are unweighted results based on starting sample of 1,000 businesses, including the aforementioned 600 SMEs plus an additional 400 large businesses of 250+ employees.

1. First, we asked businesses what their relationship is to their commercial premises.
2. Second, we asked businesses whether they had taken, planned to take, or had no plans to take, the list of eight energy efficiency actions from the British Business Bank's 2021 study of SMEs and net zero (classifying different actions as either 'simple' or 'extensive').<sup>56</sup>
3. Finally, we asked businesses to choose, from a list, what three enablers would – or did – encourage them to take each of the five, 'extensive' actions. The Appendix includes heatmap analysis showing the most important enablers chosen against each action, by audience.

We address the findings in relation to the three key audiences identified – commercial tenants, commercial owner-occupiers, and commercial landlords – in turn.

## Commercial tenants

Our Q3 2024 BPI survey found that a quarter (25%) of businesses with 0-249 employees are tenants in the commercial premises they operate from.<sup>57</sup> Micro-businesses (36%) and small businesses (31%) are particularly likely to be in this situation.

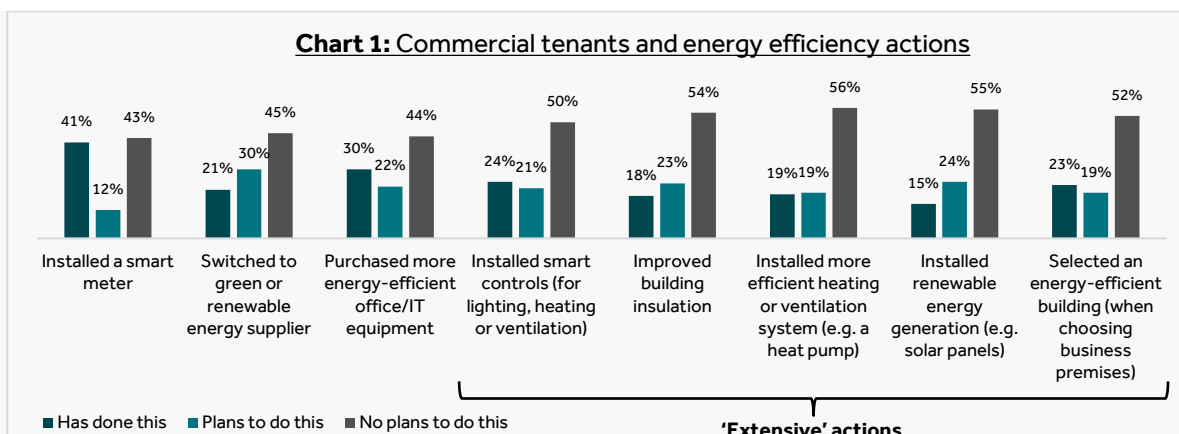
### Areas of investment to date (Chart 1)

- Only a minority of SMEs who are commercial tenants have taken each of the eight actions to improve their energy efficiency to date – and in almost all cases, they are significantly less likely than owner-occupiers and commercial landlords to have done so.
- The most common actions they have invested in are 'simple' actions, notably installing a smart meter (which 41% have done) and purchasing more energy efficiency office/IT equipment (which 30% have done).
- Investment in more extensive actions is less common among this audience – although almost a quarter say they have installed smart controls (24%) or selected an energy-efficient building (23%).
- Commercial tenants are significantly more likely than both owner-occupiers and commercial landlords to say they have no plans to take each action, with large proportions (in several cases, over half) of tenants choosing this option in each case.
- The actions that commercial tenants are most likely to say they have no plans to take are 'extensive' actions that require greater investment, but have a greater impact on emissions reduction.

<sup>56</sup> British Business Bank, [Smaller businesses and the transition to Net Zero](#), October 2021.

<sup>57</sup> There were 149 'Tenants' in our survey sample – defined as SMEs (see footnote 55) who chose "My business is a tenant in the commercial premises that it operates from". We note that this result is lower than the figures for tenanted commercial premises quoted in other studies, and we assume this is linked to differences in data collection and evaluation methodologies.

**Chart 1: Commercial tenants and energy efficiency actions**



### Investment enablers

Commercial tenants most commonly said, 'none of the above' when asked what would – or did – encourage them to invest in the five 'extensive' actions to improve the energy efficiency of their commercial premises. Where commercial tenants did cite enablers, tax incentives are uniformly the most popular across each of the five actions.

Other potential investment enablers differ depending on the specific action being considered:

Action	Enabler
<ul style="list-style-type: none"> <li>Installing more efficient heating or ventilation system</li> <li>Installing renewable energy generation</li> </ul>	<ul style="list-style-type: none"> <li>Requirements on landlords to make their buildings more energy efficient</li> </ul>
<ul style="list-style-type: none"> <li>Improving building insulation</li> <li>Installing renewable energy generation</li> <li>Selecting an energy efficient building</li> </ul>	<ul style="list-style-type: none"> <li>Greater confidence about their future business performance and income</li> </ul>
<ul style="list-style-type: none"> <li>Installing smart controls</li> </ul>	<ul style="list-style-type: none"> <li>Greater confidence that the technology they would be investing in has longevity</li> </ul>
<ul style="list-style-type: none"> <li>Installing more efficient heating or ventilation system</li> </ul>	<ul style="list-style-type: none"> <li>More flexible private financing/lending options</li> </ul>

Commercial tenants were significantly less likely than commercial landlords to cite greater confidence in the longevity of the technology, and more readily available data on building energy use and efficiency, as enablers across almost all five actions.

### What might be driving these findings?

For commercial tenants, a key challenge that can hinder investment in improving their commercial premises can be the actual ability (or lack thereof) to do so. If a business does not own the premises it operates from, then depending on its lease, contractual stipulations can mean that it is not within their control to make permanent or structural changes that would have a significant impact on the energy efficiency of their premises.<sup>58</sup> It may also not be in their financial or practical interest to invest in energy efficiency upgrades to the premises they rent, particularly if their lease is for a shorter period of time,

<sup>58</sup> Barclays, 'SME Road to Net Zero' qualitative research, October 2023 and 'Unlocking the future of SME green lending' qualitative research, June 2024.

meaning they would not be the beneficiaries of such investment in the long term. This may be contributing to the levels of inaction seen in our data, with commercial tenants demonstrating considerably less appetite for 'extensive' action on the energy efficiency of their commercial premises, and a lack of responsiveness to enablers.

**Summary – commercial tenants:**

- There is limited appetite among SMEs who are tenants in their commercial premises to invest in 'extensive' energy efficiency improvements.
- Where energy efficiency improvements have been made, they are more focused on 'simple' actions.
- Commercial tenants are significantly more likely to have no plans to undertake energy efficiency improvements when compared to owner-occupiers and commercial landlords.
- They may face limitations on what changes they can make due to their tenant status within their premises, but tax incentives come through as a popular enabler.

## Commercial owner-occupiers

Our Q3 2024 BPI survey found that almost half (47%) of businesses with 0-249 employees own the commercial premises they operate from, with no other tenants – a group we have labelled 'commercial owner-occupiers'.<sup>59</sup> This is more common among medium-sized businesses (60%) than among micro businesses (35%).

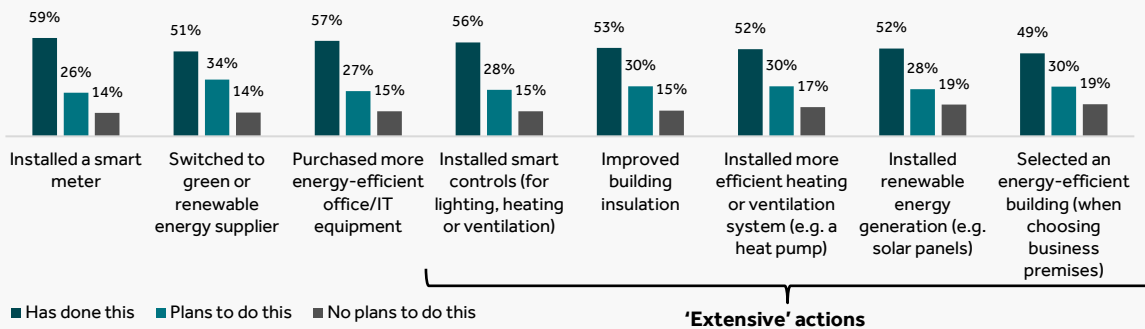
**Areas of investment to date (Chart 2)**

- Across the board, commercial owner-occupiers are significantly more likely than tenants to have already invested in actions to improve their energy efficiency, with half or more having done so (ranging from 49% to 59%).
- Like tenants, the most common actions that commercial owner-occupiers have taken to date are those that count as 'simple' actions, such as installing a smart meter (59%) and purchasing more energy efficiency office/IT equipment (57%).
- However, in most cases a majority have also taken more 'extensive' actions, such as installing smart controls (56%) and improving building insulation (53%).
- Commercial owner-occupiers are also significantly less likely than tenants to have no plans to invest in each action (ranging from 14% to 19% of owner-occupiers, compared to around half of tenants).

<sup>59</sup> There were 281 'Owner-occupiers' in our survey sample – defined as SMEs (see footnote 55) who chose "My business owns the commercial premises that it operates from, and has no other tenants".



**Chart 2: Owner-occupiers and energy efficiency actions**



**Investment enablers**

Enablers of energy efficiency investment among commercial owner-occupiers differ substantially to those among tenants. Notably, two enablers consistently came through in the top three answers among owner-occupiers, which were rarely seen among tenants:

- Greater confidence that the technology they would be investing in has longevity i.e. that it does not rapidly become redundant due to pace of tech change, regulation, or customer expectations.
- More readily available data on building energy use and efficiency.

Looking more specifically at individual actions, enablers around financing and cost come through strongly among commercial owner-occupiers, reflecting the barriers discussed earlier:

Action	Top enablers
<ul style="list-style-type: none"> <li>• Selecting an energy-efficient building</li> <li>• Installing more efficient heating or ventilation system</li> </ul>	<ul style="list-style-type: none"> <li>➤ More flexible private financing/lending options to pay for this action</li> <li>➤ Increased availability of accessible and comprehensive grants for this type of investment</li> </ul>
<ul style="list-style-type: none"> <li>• Improving building insulation</li> <li>• Installing renewable energy generation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Greater confidence about their future business performance and income</li> </ul>
<ul style="list-style-type: none"> <li>• Installing smart controls</li> </ul>	<ul style="list-style-type: none"> <li>➤ More flexible private financing/lending options to pay for this action</li> </ul>

**What might be driving these findings?**

As owner-occupiers, this audience potentially has a more vested interest in ensuring the longevity of any investment in their premises. They are also able to access accurate data on energy efficiency for their building, which can help to inform the most impactful potential areas in which to invest in improvements. It is also notable that commercial owner-occupiers are significantly less likely than commercial tenants to choose 'none of the above' when it comes to enablers, suggesting that building ownership makes them more engaged with and open to such enablers of this investment than those who only lease their premises.

### Summary – commercial owner-occupiers:

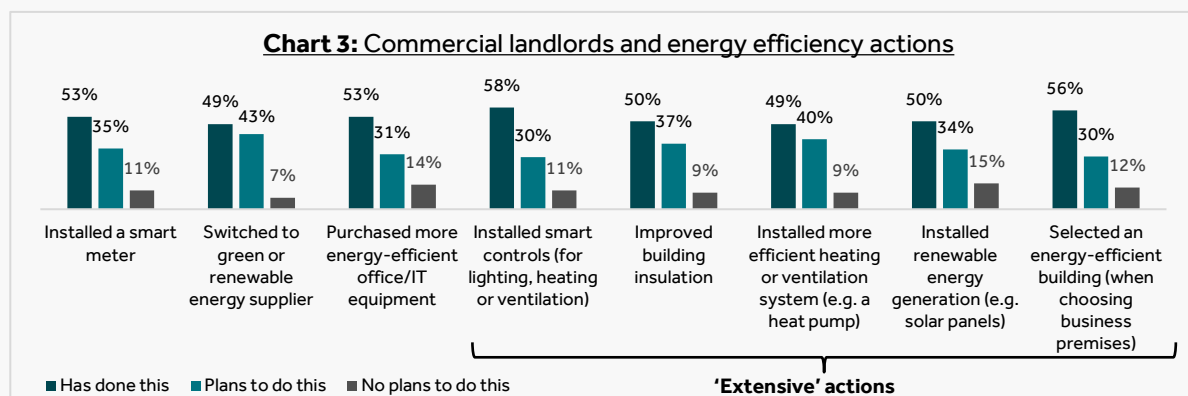
- Commercial owner-occupiers are significantly more likely to have invested in actions to improve their energy efficiency, and significantly less likely to have no plans to do so.
- While 'simple' areas of investment are also the most common with this audience, significant proportions have undertaken more 'extensive' actions.
- Enablers among owner-occupiers are also substantially different to those among tenants, with confidence in the longevity of the technology, and more readily available data on energy efficiency, particularly important.
- This likely reflects the more empowered relationship that commercial owner-occupiers have with their commercial premises relative to tenants.

## Commercial landlords

In our Q3 2024 BPI survey, 24% of all the businesses we surveyed said they owned one or more commercial premises, but leased them out to other businesses – a group we have labelled 'commercial landlords'.<sup>60</sup> While we limited the preceding two audiences to focus on SMEs (defined as businesses with 0-249 employees), for the commercial landlord audience we included businesses with 250+ employees, given that their portfolio includes SMEs who are tenants.

### Areas of investment to date (Chart 3)

- The investment picture among commercial landlords is similar to commercial owner-occupiers.
- Around half or more of commercial landlords have already undertaken each action.
- However, unlike commercial owner-occupiers, the most common actions they have invested in are 'extensive' ones: installing smart controls (58%) and selecting energy-efficient buildings (56%).
- Only a small proportion (15% or less) of commercial landlords say they have no plans to undertake each of the eight actions, which leaves between 30% and 43% who plan to do so but have not yet – in both cases, similar proportions among commercial owner-occupiers across these areas of investment.



<sup>60</sup> There were 243 'Commercial landlords' in our survey sample – defined as businesses (see footnote 55) who chose "My business owns one or more commercial premises, but leases them out to other businesses". Unlike the 'Tenant' and 'Owner-occupier' audiences, businesses with 250+ employees are included in the Commercial landlord audience.

These findings can be expanded on by drawing in further qualitative research Barclays undertook with landlords in the summer of 2023. This found that:

- Commercial landlords' main motivator for investing to increase the sustainability of their properties would be the financial gain.<sup>61</sup> In this respect, their drivers mirror the 'protect' and 'impress' motivations for green investment among SMEs overall.
- Demand from their tenants to make green improvements had been low, but commercial landlords did report a desire among their tenants to reduce their own costs. This suggests that alignment in motivators can be possible.<sup>62</sup>
- However, none of the commercial landlords in our qualitative research spontaneously knew the EPCs of their properties when asked, despite the EPC E requirement coming into force earlier that year. Similarly, few were aware of further proposed changes at the time to government regulation around EPCs, or what changes would be required to their properties to meet the minimum standards.<sup>63</sup> This suggests a potential knowledge gap among this group regarding their responsibilities.

#### Investment enablers

Mirroring commercial owner-occupiers, the same two consistent enablers come through among commercial landlords when asked what would or did help them to undertake extensive actions to improve energy efficiency:

- Greater confidence that the technology they would be investing in has longevity.
- More readily available data on building energy use and efficiency. This could, for example, include requirements to share such data between tenants and landlords. The fact that this comes through so prominently as a chosen enabler likely reflects the challenges that commercial landlords currently face around accessing data on energy use within their premises.

As a point of difference, commercial landlords also repeatedly cite the following as a key enabler, which commercial owner-occupiers do not:

- Greater clarity about the balance of responsibility and benefit between landlords and tenants for this type of investment.

Looking action-by-action, two other key enablers come through strongly with this group:

Action	Top enablers
<ul style="list-style-type: none"> <li>• All extensive actions besides selecting an energy-efficient building</li> </ul>	<ul style="list-style-type: none"> <li>➤ Greater confidence about their future business performance and income</li> </ul>
<ul style="list-style-type: none"> <li>• All extensive actions besides installing renewable energy generation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increased availability of accessible and comprehensive grants for this type of investment</li> </ul>

It is also notable that commercial landlords are significantly less likely than both tenants and commercial owner-occupiers to choose 'None of the above' when asked to choose enablers. This indicates that they

<sup>61</sup> Barclays, 'Net Zero: Real Estate sentiment' qualitative research, July 2023.

<sup>62</sup> Barclays, 'Net Zero: Real Estate sentiment' qualitative research, July 2023.

<sup>63</sup> Barclays, 'Net Zero: Real Estate sentiment' qualitative research, July 2023.

are the most engaged of the three audiences when it comes to giving a view on what types of levers have driven or would drive investment, likely because of MEES and the risk of stranded assets.

#### **What might be driving these findings?**

The similarities in outlook between commercial owner-occupiers and commercial landlords may reflect the fact that, as property owners, both audiences are empowered and often required to make these changes. In particular, the more stringent regulatory requirements landlords face under MEES may contribute to their greater levels of action on building energy efficiency. However, the desire among commercial landlords to have greater clarity on the balance of responsibilities between landlords and tenants indicates that there remains ambiguity here, which could be driven by differences in the incentives and benefits profile that each party sees in relation to specific actions (i.e. while landlords might be responsible for building changes, typically tenants would reap the cost saving benefits through bills).

#### **Summary – commercial landlords:**

- The picture among commercial landlords is similar to commercial owner-occupiers, with around half or more having already invested in actions to improve their energy efficiency, and only small proportions having no plans to do so.
- Unlike owner-occupiers and tenants, the most common areas of investment to date among commercial landlords are 'extensive' ones.
- Key policy enablers are also similar to commercial owner-occupiers, but greater clarity on the balance of responsibility and benefit between landlords and tenants (recognising it will not be a one-size-fits-all for every lease type) is also seen as key.

By looking across the results from these three key audiences, and combining them with the thematic driver and barrier findings of our research review, we can start to draw out a series of conclusions about what influences SME behaviours and decisions regarding the energy efficiency of their commercial premises, and how these can be influenced to drive sustainable change:

- **Key finding #1:** This landscape is complex, and incentives for different actors within the ecosystem are not aligned. There are substantial differences in both investment plans and investment enablers between tenants (less engaged, and favour 'simple' actions), and commercial owner-occupiers and commercial landlords (more engaged, and more likely to take 'extensive' actions), when it comes to taking action to improve the energy efficiency of their commercial premises. This likely reflects the more empowered position that commercial owner-occupiers and commercial landlords are in as the owners of their premises, compared to tenants.
- **Key finding #2:** Cost and capacity are already critical barriers to SMEs investing in green assets and sustainable improvements more broadly. With regards to improving the energy efficiency of commercial premises specifically, the tenant/owner dynamic adds an additional layer to this challenge, due to the split incentive and misalignment between cost-bearer, versus benefit-receiver.
- **Key finding #3:** Improved data availability on the energy efficiency of commercial premises could be a key enabler of action and engagement within the ecosystem. However, this needs to be substantially

SMEs and the built environment

enhanced to better support building owners in assessing – and potentially sharing – the benefits of action.

- **Key finding #4:** External pressures can be a powerful driver of SME behaviour and could be used to overcome this challenge. We know that SMEs do respond reactively to 'comply' pressures (either through regulation, or indirectly via supply chain or procurement requirements). They also have a proactive instinct to pursue change that will 'impress' future customers, clients or stakeholders. Leveraging this responsiveness could be a way to overcome the misalignment of incentives seen in the tenant/landlord dynamic.

The following section unpacks the relevance of each conclusion to public policy design in the UK.

## Policy recommendations and conclusion

*How can public policy be used to encourage more small and medium-sized businesses, and commercial property owners, to make bigger investments in physical actions to improve the energy efficiency of their business premises?*

Our four key findings suggest that a holistic package of measures that includes targeted interventions for and across each audience will be necessary to facilitate a smoother path to greater investment on energy efficiency for commercial premises. By taking each in turn we can start to draw out the specific public policy recommendations they might support.

**First key finding: This landscape is complex, and incentives for different actors within the ecosystem are not aligned.**

### Policy implications

This observation provides a framing consideration for the remainder of our key conclusions. However, that should not diminish its importance in addressing the research question above. The misalignment of incentives across actors within the commercial premises ecosystem is one of the most fundamental reasons we have identified that explains why change has not been faster or easier so far, and we therefore seek to frame all further conclusions and recommendations within this context.

Furthermore, the interaction with policy to address the energy efficiency challenge in residential properties is something that is not directly addressed in this report, but is important to keep in mind as key to achieving a fair and well-managed transition for UK buildings as a whole. Whilst our insights and recommendations exclusively focus on ways to drive improvements to the energy efficiency of commercial buildings specifically, we would highlight the importance of ensuring reasonable consistency of approach across both markets (whilst recognising that different nuances or policy objectives may necessarily apply in places). To address this, we would encourage the government to set out an integrated transition plan for the built environment in the round that incorporates clear timelines for delivery, and milestones along the way. This will help to provide all actors with clarity of approach, as well as to identify and avoid unnecessary deviation or inconsistency of approach between these two markets.

**Second key finding: Cost and capability are already critical barriers to SMEs investing in green assets and sustainable improvements more broadly, but the challenge is exacerbated in the commercial premises space where a misalignment of incentives exists between cost-bearer, versus benefit-receiver.**

#### Policy implications

The cost barrier appears to impact premises owners the most – SME commercial owner-occupiers, and the commercial landlord population, both cite cost-related enablers – which is unsurprising given that these groups are most likely to be responsible for significant building works (giving allowance to variations in lease structures). We know from our wider research that smaller businesses feel the cost challenge more acutely in relation to environmental and sustainability investment in general, which would support prioritising this group for assistance in particular.

Capability is also a linked, and critical, part of the picture, with our research suggesting that knowing where to start with accessing financial support and pinpointing actions to take can be half the battle for SMEs of all kinds.

We see two ways in which the cost challenge could be tackled:

1. **Availability and signposting of grants and support:** The availability of accessible and comprehensive grants is cited as an important enabler of extensive energy efficiency actions by all owners of commercial premises. However, a range of grants are already available for UK businesses to make energy efficiency improvements to their premises (e.g. the Boiler Upgrade Scheme, VAT savings on energy saving measures for home businesses). This suggests that the challenge is not just the availability of financial support – it is about making it easy to find and use.

We know from our client conversations that businesses see eligibility requirements as complex and application processes as onerous,<sup>64</sup> and it takes time and effort to find the right information. This therefore suggests that the existing landscape needs optimising, rather than re-designing, and there may be learnings that can be taken from existing schemes on how to do this well.

For example, the West Midlands Decarbonisation Net Zero Programme (delivered in collaboration with Aston University and Birmingham City Council and funded by the UK government), is a dedicated energy advice service for SMEs. Businesses undergo an initial free energy efficiency assessment and are then eligible to apply for grants of up to £100,000 to help deliver the solutions identified.

This linking of funding provision to an upfront assessment of need is a key design feature of the pilot. Such an approach is intended to ensure that tangible energy efficiency improvements have already been pinpointed before the money is released, removing the requirement on businesses to understand, identify and prioritise the right actions for their business or premises. However, this work is in its early stages of roll-out, and should be kept under review to understand the strengths and weaknesses of such an approach over time. In particular, care needs to be taken in designing how the upfront assessment should best be delivered to ensure a high quality of service, which does not undermine the emerging market in this space.

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<sup>64</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

Also already available is the UK Business Climate Hub, which provides information for SMEs in the UK on a wide range of sustainable actions (such as commercial building energy use), as well as the finance and support available to help deliver them. This is already providing something akin to a one-stop-shop for business information, but further value could potentially be derived from the Hub with additional signposting and marketing of these resources.

We believe that a stand back review to identify the optimal pathway and information sources to help SMEs navigate the landscape is required before considering whether further grants are required.

***Recommendation #1: The government should conduct a full review of the SME environmental grants landscape to:***

- a) Consolidate existing schemes into a streamlined offering.***
- b) Consider options for creating a single point of entry that integrates both educational materials and a clear pathway to funding. This should explore the potential value and feasibility of incorporating some form of upfront needs assessment.***
- c) Actively market the offering to drive awareness and take up.***

*Such an approach should seek to leverage and optimise existing information sources such as the UK Business Climate Hub to help make the end-to-end process of understanding, accessing and spending funds on specific energy efficiency improvements to commercial buildings seamless and easy for SME businesses.*

- 2. Tax incentives:** The tax system can be used to address cost barriers, incentivise particular types of spend, or to create a closer alignment of benefits across the ecosystem. In the case of commercial premises and energy efficiency, we know that tenants in particular cite tax incentives as a key enabler of greater investment in 'extensive' energy efficiency actions. Tax measures may also help to counter commercial owner-occupiers' and landlords' concerns about cost.

The capital allowance regime could be a mechanism through which incentives to invest in the energy efficiency of buildings are increased. For most businesses, investment in energy efficient technologies and equipment (including boilers, ventilation systems, insulation, etc.) is already covered under their annual investment allowance (i.e. deductible under the capital allowances regime). However, in the 2018 Budget the government introduced enhanced capital allowances (ECA) on energy efficient and environmentally beneficial technologies and equipment. This allowed 100% of the investment cost in such technologies be deducted from taxable income – even if a business has already used their standard annual investment allowance. The Energy Technology List (ETL) and Water Technology List (WTL) provided a list of verified, qualifying technologies. However, this scheme was removed from April 2020.

Going further, from April 2021 – March 2023 a 130% first year super-deduction was introduced for investment in technologies and equipment on the ETL and the WTL. This was part of a package of measures intended to stimulate economic activity in response to the pandemic, and was not solely focused on 'green' outcomes. However, it did create a powerful incentive for both businesses and landlords to make more energy efficient and sustainable investment in their commercial premises – even if they were already spending well within their annual investment allowance (particularly relevant for small and micro businesses). However, this scheme has also now closed.

Whilst recognising that the government is operating in a cost-constrained environment, we see the loss of any targeted incentives for businesses to invest in energy efficient technologies and



equipment as a missed opportunity to incentivise faster progress on energy efficiency across commercial premises. Making such investment more tax efficient can act as an effective nudge for all actors to make more sustainable choices for their buildings and operations, and we would strongly encourage the government to reconsider its decision to remove these targeted incentives.

**Recommendation #2: The government should reconsider its decision to remove targeted capital allowance incentives for investment in energy efficient solutions for buildings and business operations. In particular, we would strongly support the re-introduction of a super-deduction applied to technologies and equipment on the Energy Technology List (ETL) and Water Technology List (WTL) to encourage businesses and landlords to make more sustainable choices when investing in the energy efficiency of their operations and premises.**

- 3. Private and blended finance solutions:** Finally, it is worth recognising that innovative private and blended financing solutions are also key to driving change. Our research suggests that more flexible financing options, such as smaller loan sizes and early or extended repayments, is another important enabler to support SMEs with green investment more broadly.<sup>65</sup> Barclays is committed to facilitating \$1trn of Sustainable and Transition Financing by the end of 2030, to support the transition to a low carbon economy.

### **Third key finding: Improved data availability on the energy efficiency of commercial premises could be a key enabler of action and engagement within the ecosystem.**

#### Policy implications

Getting the data flows right between actors in the system is another key way in which the misalignment of incentives can be addressed, because it enables all parties to understand the potential benefits of investing in improved energy efficiency for commercial buildings, and potentially unlock innovative solutions to the challenge. At present, there are three elements to the challenge: 1) the need for accurate energy use data to be captured in the first place; 2) ensuring that data is shared with, and accessible to, necessary parties; and 3) agreeing consistent reporting standards, which we see as key to the ecosystem in the round.

- 1. Accurate data capture:** Impactful energy efficiency improvements require accurate energy use data, and we echo the call in the Barclays-commissioned Baringa report for "*putting the focus on tracking detailed, real-world energy consumption*".<sup>66</sup> This is particularly important given the range in type and size of commercial buildings, meaning that energy usage – and the most effective ways to reduce or improve it – can vary substantially even within a single premises. This can only be unlocked with accurate, timely data.

EPC reform is critical to ensuring that better quality data is available on the energy performance of buildings, that is not influenced by factors that are external to the features of the building itself (e.g. energy prices or grid mix). We welcome the government's recent consultation on this topic (December 2024),<sup>67</sup> although note that the focus of this paper is primarily on enhancing EPC metrics

<sup>65</sup> Barclays, 'Unlocking the future of SME green lending' qualitative research, June 2024.

<sup>66</sup> Baringa and Barclays, [Navigating sustainable retrofit in real estate](#), October 2024.

<sup>67</sup> Ministry of Housing, Communities & Local Government and Department for Energy Security & Net Zero, [Reforms to the Energy Performance of Buildings regime](#), December 2024. Contains public sector information licensed under the Open Government Licence v3.0.



for residential buildings, leaving commercial building EPC metrics unchanged. We see this as a potentially missed opportunity – our research shows that commercial owner-occupiers and commercial landlords cite ‘more readily available data on building energy use and efficiency’ as a key enabler to improving their buildings’ energy efficiency. The government should therefore be seeking to deliver high quality building performance data for all UK buildings, regardless of their purpose. We would strongly advise the government against de-scoping commercial building metrics from its current consultation, and instead take forward a review of all building performance metrics, to help all UK property owners to better understand and compare performance across their estates.

In addition to the above, we recognise that continued smart meter roll out is also key to achieving accurate data capture for buildings. While most smaller businesses are in scope of the programme, government and the energy sector should consider what can be done to support premises left behind by the roll out, including larger businesses, and whether there are opportunities for these businesses to leverage smart technology for tracking energy use.

***Recommendation #3: The government should seek to conclude its consultation on the Energy Performance of Buildings regime at pace to identify improvements to energy performance measurement and reporting. Critically, this should review the metrics for commercial buildings in tandem with those for residential buildings, to ensure that the energy performance of all buildings – regardless of purpose – can be assessed using high quality, understandable and comparable data.***

- 2. Data access:** If accurate and timely building data can be achieved, then this can be used to help both building owners and tenants to understand and unlock efficiency improvements. However, this will only work if all parties have access to a shared view of this data to inform their decision-making.

Our research shows that both commercial landlords and commercial owner-occupiers cite more readily available data on building energy use and efficiency as a top enabler of more extensive actions to improve the efficiency of their premises. While owner-occupiers who manage their own energy supply should, typically, have access to their own energy use data, there are currently no requirements that building tenants share or make this information available to their landlords (landlords can only access and use energy data if they have written consent from the tenant<sup>68</sup>). Furthermore, access to smart meter data for non-domestic customers is highly regulated, making it challenging for landlords to access it directly – even if they own the building in question.

A current barrier to this being achieved is the requirement that data can only be shared where there is ‘legitimate interest.’ However, what constitutes ‘legitimate interest’ can be ambiguous. The concept stems from GDPR regulations, and ambiguity in its application has been seen across a range of different sectors. The government recognises the challenge and is currently seeking to improve the application of ‘legitimate interest’ in the UK under the Data Use and Access (DUA) Bill. This includes the creation of a list of ‘recognised’ legitimate interests (limited to a small number of areas of public interest such as safeguarding children and preventing crime), and additional clarification of the types of processing that would require a full legitimate interest assessment. However, it is yet to be seen if the Bill will materially alter the data sharing landscape for energy data.

In parallel, the government is also exploring the potential to develop an energy smart data scheme in the UK. This would make it easier and safer for energy data to be shared securely with authorised third parties (ATPs), potentially unlocking more personalised solutions and greater choice of

<sup>68</sup> British Property Federation, [Energy Data, Buildings and Net Zero. Closing the Data Deficit](#), June 2024.

services. It could also support the development of products and services that improve landlord visibility and understanding of building performance, even where they have multiple tenants.

We see both initiatives as positive developments that could potentially help address the data-sharing challenges seen in commercial premises. However, given how strongly data availability came through as an enabler to building owners investing in extensive energy efficiency improvements, we believe there is a case for moving even faster to resolve this challenge.

We therefore believe there could be value in the government mandating that energy data is shared between building tenants and building owners, at a minimum. Such a step would ensure that all parties have a shared understanding of a building's energy performance and can more easily assess the potential benefits of investing in energy efficiency improvements. It could also enable both the owners and the tenants of commercial buildings to access innovative new products and services that each could benefit from. For example, giving access to more innovative utilities contracts, or even enabling access to types of green lending. This creates another way in which business awareness of and appetite for action to improve energy efficiency can be increased across all actors in the ecosystem.

***Recommendation #4: The government should mandate the sharing of energy consumption data between commercial real estate tenants and building owners to improve understanding of building performance and appetite for energy efficiency improvements.***

- 3. Consistent data reporting:** Finally, while both the accuracy of the underlying data and the ability to share it are critical, consistency in sustainability reporting is also needed to ensure that these improvements come together in a coherent and actionable way. Currently there is no single emissions reporting process, meaning that SMEs receive divergent requests (creating additional burdens alongside existing time and resource constraints); and that their stakeholders, including financial institutions, receive incomparable data from different businesses.

Project Perseus – led by Icebreaker One, with Barclays participating as a commercial member – offers a case study in how to automate the reporting of greenhouse gas emissions for UK SMEs. Perseus is “creat[ing] the rules and processes that make automated reporting possible... [enabling] products and services such as accounting platforms, emissions calculators, and reporting software to deliver higher-quality emissions data at scale.”<sup>69</sup> We thank the government for its ongoing support for this initiative, and look forward to working with partners to develop it further to support future business actions and decision-making.

**Fourth key finding: External pressures can be a powerful driver of SME behaviour and could be used to overcome this challenge.**

#### Policy implications

<sup>69</sup> Icebreaker One, [Perseus: automating emissions reporting to unlock finance for SMEs](#), accessed February 2025.

Finally, we know that SMEs are responsive to pressures and expectations from stakeholders across the external landscape. Leveraging this to re-balance or increase incentives for action could be a low cost and effective way of accelerating energy efficiency improvements among SMEs across their commercial premises.

We see two ways in which this could be done:

- 1. Accelerating Minimum Energy Efficiency Standard (MEES) for commercial premises:** At present, landlords that are responsible for privately rented non-domestic properties are subject to MEES (i.e. their premises require an EPC E rating in order to be let or they face significant fines).<sup>70</sup> In 2021 the government consulted on how to implement a minimum standard EPC B by 2030, with an interim step in 2027 or 2028. However, the current status of these proposals is unclear. More broadly, limiting these requirements to commercial landlords means that a significant part of the market is not captured by any mandates regarding the energy performance of their buildings.

Based on our evidence, we know that businesses can be strongly motivated to prioritise action and investment in sustainability initiatives by clear and firm regulatory requirements (our 'comply' findings). We would therefore encourage the government to press ahead with implementing their proposed deadline, in order to give clarity to businesses and set a firm direction of travel. We do, however, recognise that some time has now lapsed since the implementation consultation was concluded, meaning that the precise deadline may need to be re-visited to give businesses sufficient time to prepare (i.e. potentially pushed out beyond 2030). However, we feel that by continuing to leave this question open, the government is losing time and opportunity in driving a step change in the energy efficiency of UK commercial buildings.

***Recommendation #5: The government should confirm the raising of the minimum standard under MEES for privately rented non-domestic properties to EPC B by an agreed and appropriate deadline (including any necessary interim steps).***

- 2. Strengthening green lease requirements on tenants:** Our research also shows strong appetite among commercial landlords for greater clarity about the balance of responsibility and benefit between landlords and tenants for the types of extensive actions needed to improve the energy efficiency of their commercial premises. It will not always be realistic, or fair, to expect tenants to invest in significant energy efficiency improvements, particularly if their lease is short term in nature. But consideration should be given to whether, alongside requirements of landlords, there are regulatory opportunities to push tenants to enable or support improvements to energy efficiency via means that are within their control – for example, by requiring certain behaviours such as recycling, or that any business equipment or operations meet certain energy efficiency standards.

Green leases are one area in which this might be feasible. Green leases create a set of sustainability requirements that tenant businesses must abide by and give landlords access to redress if they do

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<sup>70</sup> We also note that the government is currently consulting on raising minimum energy efficiency standards for privately rented homes in England and Wales to the equivalent of Energy Performance Certificate (EPC) C by 2030. See Department for Energy Security & Net Zero, [Improving the energy performance of privately rented homes: 2025 update](#), February 2025. Contains public sector information licensed under the Open Government Licence v3.0.

not. Clauses within green leases are sometimes categorised as 'light green' or 'dark green' depending on how far they go to help mitigate environmental impact.

Adoption of green leases has been steadily growing in the UK, indicating that there is a market for these types of arrangements. However, they tend to be more prevalent in newer buildings which are already more energy efficient, and less popular in older buildings where concerns about the cost of compliance may be greater.

Exploring ways to drive uptake across all types of commercial premises could help to accelerate energy efficiency progress, particularly across more challenging types of real estate, where appropriate. This could include setting a target date by which all commercial building leases in the UK should incorporate a minimum set of green clauses. We see clauses that require the sharing of energy use data, or permitting building access (within reason) for energy efficiency improvements, as particularly valuable in overcoming some of the biggest barriers to businesses taking more extensive improvement actions.

However, we recognise that such a change cannot be implemented overnight, given that many commercial tenancy agreements are signed for decades at a time. Therefore, establishing an appropriate glide path will be critical to transitioning all businesses onto such leases over time. In the interim, targeted action should continue to be pursued to help with overcoming some of the challenges that traditional lease structures present to improving the energy efficiency of tenanted commercial buildings. We see our recommendation #5 (data sharing permissions) as a key bridging solution to help address some of these issues in the short term.

***Recommendation #6: The government should consider putting more regulatory weight behind the use of green leases – potentially mandating that all commercial building leases include some basic requirements in this respect (such as data sharing permissions, or landlord rights of access for energy efficiency improvements) by an agreed deadline.***

## Appendix – Heatmap: enablers to 'extensive' actions that improve energy efficiency<sup>71</sup>

Enabler	Action	SME owner-occupiers	SME tenants	Commercial landlords
<b>Greater confidence that the technology you would be investing in has longevity (i.e. does not rapidly become redundant owing to pace of tech change, regulation, or customer expectations etc.)</b>	Installing smart controls	#2 (19%)	#3 (13%)	#1 (28%)
	Improving building insulation	#1 (22%)		#1 (28%)
	Installing more efficient heating or ventilation system	#1 (24%)		=#1 (23%)
	Installing renewable energy generation	#1 (24%)		#1 (26%)
	Selecting an energy-efficient building	=#2 (17%)		#1 (26%)
<b>More readily available data on building energy use and efficiency – this could include requirements to share such data between tenants and landlords</b>	Installing smart controls	#1 (20%)		#2 (26%)
	Improving building insulation	#3 (19%)		#2 (26%)
	Installing more efficient heating or ventilation system	=#3 (19%)		=#1 (23%)
	Installing renewable energy generation	#2 (21%)		#3 (21%)
	Selecting an energy-efficient building	=#1 (19%)		#2 (21%)
<b>Greater confidence about my future business performance and income</b>	Installing smart controls			=#3 (21%)
	Improving building insulation	#2 (21%)	#3 (14%)	=#3 (17%)
	Installing more efficient heating or ventilation system			=#1 (23%)
	Installing renewable energy generation	#3 (19%)	=#3 (14%)	#2 (23%)
	Selecting an energy-efficient building		#3 (15%)	
<b>Increased availability of accessible and comprehensive grants for this type of investment</b>	Installing smart controls			=#3 (21%)
	Improving building insulation			=#3 (17%)
	Installing more efficient heating or ventilation system	=#3 (19%)		=#2 (18%)
	Installing renewable energy generation			
	Selecting an energy-efficient building	=#2 (17%)		=#3 (19%)
	Installing smart controls	=#3 (17%)		

<sup>71</sup> Barclays/Opinium survey, Q3 2024. Unweighted results. Starting sample of 600 SMEs (including 200 micro businesses of 0-9 employees; 200 small businesses of 10-49 employees; and 200 medium-sized businesses of 50-249 employees). Results among starting sample of 400 larger businesses with 250+ employees also surveyed are only included in the 'Commercial landlords' audience – not within the 'SME owner-occupiers' or 'SME tenants' audiences.

<b>More flexible private financing/lending options to pay for this action</b>	Improving building insulation			
	Installing more efficient heating or ventilation system	#2 (21%)	=#3 (13%)	
	Installing renewable energy generation			
	Selecting an energy-efficient building	=#1 (19%)		
<b>Greater clarity about the balance of responsibility and benefit between landlords and tenants for this type of investment</b>	Installing smart controls	=#3 (17%)		
	Improving building insulation			=#3 (17%)
	Installing more efficient heating or ventilation system			=#2 (18%)
	Installing renewable energy generation			
	Selecting an energy-efficient building			=#3 (19%)
<b>Tax incentives</b>	Installing smart controls		#2 (17%)	
	Improving building insulation		#2 (23%)	
	Installing more efficient heating or ventilation system		#2 (23%)	
	Installing renewable energy generation		#2 (24%)	
	Selecting an energy-efficient building		#2 (21%)	
<b>Requirements on landlords to make their buildings more energy efficient</b>	Installing smart controls			
	Improving building insulation			
	Installing more efficient heating or ventilation system		=#3 (13%)	
	Installing renewable energy generation		=#3 (14%)	
	Selecting an energy-efficient building			
<b>None of the above</b>	Installing smart controls		#1 (26%)	
	Improving building insulation		#1 (28%)	
	Installing more efficient heating or ventilation system		#1 (31%)	
	Installing renewable energy generation		#1 (29%)	
	Selecting an energy-efficient building		#1 (29%)	